BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

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RATE ADJUSTMENT DUE TO	)	
EXTRAORDINARY OR EXCEPTIONAL	)	Docket No. R2013-11
CIRCUMSTANCES	)	
	)	

**VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
MOTION FOR ISSUANCE OF INFORMATION REQUEST**
(October 17, 2013)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.

(hereinafter "Valpak"), pursuant to Rule 3001.21(a), hereby move the Commission to issue an

Information Request seeking additional clarifying data and explanation from the Postal Service

concerning the witness statement of Thomas E. Thress submitted with the Postal Service's

request on September 26, 2013. These proposed questions seek information that will amplify

and clarify witness Thress's statement and will assist the Commission in making a

determination on the Postal Service's request. Specifically, Valpak believes that obtaining this

information would contribute a better understanding of the basis for his estimates of the mail

volumes that were lost due to the alleged exigent circumstances.

In the alternative, these questions are submitted as suggested questions to be asked by

the Commission at the public hearing.

Proposed Questions for Postal Service Witness Thomas E. Thress

1. The second row of Table 1 on p. 4 of your testimony, Exigent FY 2008 – 2012 Losses
   Attributable to the Great Recession, indicates that for Standard Mail the change
   (decline) in volume from 2008 through 2012 attributed to the Great Recession "Macro
   Economy and Recession-Induced Factors" amounted 29,121.5 million pieces (see last
   column in Table 1).

At the same time, RPW reports shows changes in the total volume of Standard Mail over this period as follows (in thousands):

2008	99,084,155
2012	79,801.009
Change (decline)	19,283.146

a.   Is it correct to say that your estimated total decline in Standard Mail volume attributed to the Great Recession (29.1 billion pieces) is equal to 151.0 percent of the actual decline in volume (19.3 billion pieces) shown in the RPW Reports?

b.   Why does your estimating procedure attribute to the Great Recession a far greater change (decline) in the volume of Standard Mail — by almost 10 billion pieces — than actually occurred according to RPW Reports?

2.   Table 1 on p. 4 of your testimony indicates that for First-Class Mail the change (decline) in volume from 2008 through 2012 that was attributable to Great Recession "Macro Economy and Recession-Induced Factors" amounted 22,590.2 million pieces (last column in that table).

At the same time, RPW reports shows changes in the total volume of First-Class Mail over this period as follows (in thousands):

2008	91,696,737
2012	69,639,569
Change (decline)	22,057,168

a.   Is it correct to say that your estimated decline in First-Class Mail volume due to the Great Recession is equal to 102.0 percent of the actual decline in RPW volume for First-Class Mail?

b.   Why does your procedure attribute to the Great Recession a greater change (decline) in the volume of First-Class Mail than actually occurred?

3.   Please refer to page 4 of your testimony, Table 1, Exigent FY 2008-2012 Losses (in volume) Attributable to the Great Recession. The right-hand column in that table shows the lost volume attributed to the Great Recession for the period 2008-2012 computed for each class of mail. For the total estimated lost volume shown in that last column, have you computed any statistical measures of variation for any of the classes of mail shown there?

a.   If so, what statistical measures did you compute?

b.   Where can they be found?

c.   If you did compute statistical confidence intervals, what are the 5.0 percent confidence levels for the estimated changes in volume in the last column (2008-2012) for:

- Standard Mail?

- First-Class Mail? and

- Periodicals?

d.   If you did not compute statistical confidence intervals for the estimated loss in mail volume attributed to the Great Recession, please explain why not.

4.   Please refer to your witness statement in Docket No. R2013-11. In Table 2 under Standard Mail (p. 8), the column headed Diversion shows zeros for each year, whereas the Diversion column for First-Class Mail, Periodicals, and Parcels in Table 2 is non-zero. Also refer to Technical Appendix II, pp. II-8 through II-10.

a.   Are the zeros for each year shown in Table 2 the result of statistical calculations, *i.e.*, does your model contain data on variables that can be used to estimate diversion of Standard Mail attributable to, for example, the Internet, but those variables indicate no diversion? If so, where are those variables described?

b.   If your model does not contain any variables that can be used to estimate diversion of Standard Mail — which readily would explain the zeros under the Diversion column — please explain whether that should be interpreted to reflect your personal opinion that diversion of Standard Mail to other media either can not or has not occurred?

c.   When estimating the loss in Standard Mail volume for the years 2008-2012, could omitting consideration of diversion — and variables that might measure such diversion — increase the volume loss attributed to "Macro Economy and Recession-Induced Factors"?

d.   Does your model for Standard Mail contain as an independent variable the amount spent on Internet advertising, either in total or, preferably, the amount spent by catalog mailers?

5.   With respect to Table 2 on pages 8-10 of your testimony.

a.   Is it correct that in 2012 you estimate some 1,911.6 million pieces of First-Class Mail were lost on account of diversion (*i.e.*, the Internet, pay-by-phone, and other factors that might cause diversion), while a loss of 3,546.2 million pieces were attributable to the Macro-Economy and Recession-Induced Factors? *I.e.*, in 2012, lingering effects of the Great Recession were almost twice as important to explaining volume loss in First-Class Mail as was diversion caused by the Internet, pay-by-phone, and other factors that might cause diversion?

b.   Would it be a correct interpretation of the data in Table 2 that for the 5-year period 2008-2012 you attribute a loss of 22,590.2 million pieces of First-Class Mail to the Macro-Economy and Recession-Induced Factors, and over that same 5-year period you attribute a loss of 11,278.2 million pieces of First-Class Mail to diversion?

c.   Would it be a correct interpretation of the data in Table 2 that from 2008-2012 you attribute a loss of 29,121.5 million pieces of Standard Mail to the Macro-Economy and Recession-Induced Factors, while over that same period you believe no volume loss occurred in Standard Mail as a result of diversion?

6.   Is it likely that the model from which the data in Table 2 are derived (or developed) will continue to attribute positive losses indefinitely under the "Macro-economy and Recession-induced" factor? *I.e.*, if the Postal Service should run short of cash a few years from now, would your model continue demonstrating continued losses of mail volume due to the Great Recession?

a.   If not, under what circumstances would estimates from the model used here phase down to zero the estimated annual losses from the "Macro-economy and Recession-induced Factors"?

b.   If the economic recovery were to accelerate and become more robust, and private investment were to exceed their highest previous levels, is it conceivable that the "Macro-Economy and Recession-Induced Factors," instead of having losses in volume attributed to it instead would reverse and have positive gains attributed to it in those years?

c.   If your Macro-Economy and Recession-Induced Factors in your model can have only negative or zero effect on volume, and cannot have a positive effect, please explain the underlying logic.

7.   In your Table 2, the estimate for change in volume due to Trends reflects underlying trend data developed over what period of time? Technical Appendix II states, at p. II-9, that:

The Standard Regular mail equation includes two linear trend variables. The first of these is a simple linear time trend over its full sample period.

a. What is the "full sample period" used to develop the time trend?

b   In view of the continuing and substantial decline in the volume of First-Class Mail for over a period of six years, why is the Trends factor positive instead of negative?

c. Since population growth is already contained in the model as an independent factor, does the Trends factor reflect the combined effect of several other variables (*e.g.*, household formation, number new households, etc.) similar to the Macro Economy and Recession-Induced Factor?

d. If so, what are the variables that constitute the Trends Factor?

8. Please refer to your Table 2. In **First-Class Mail** the cumulative effect of nominal price from 2008-2012 is a reduction in volume of (3,588.9) million pieces, and the cumulative effect of inflation over the same period is a gain in volume of 2,392.8 million pieces, and the net effect of these two is a volume loss of (1,196.1) million pieces, or about 1.3 percent of the starting First-Class Mail volume of 95,347.0 million pieces.

Turning to **Standard Mail**, the cumulative effect of nominal price from 2008-2012 is a reduction in volume of (10,219.1) million pieces, and the cumulative effect of inflation over the same period is a gain in volume of 5,614.2 million pieces, for a net volume loss of (4,604.9) million pieces, or about 4.5 percent of the starting Standard Mail volume of 102,968.5 million pieces.

a. Under PAEA, First-Class and Standard Mail are both subject to the same CPI-rate cap, or Nominal Price Change, and Inflation obviously is the same for both classes. In view of that, what are the principle reasons why the combined effects of Nominal Price and Inflation appear to be so much greater for Standard Mail (4.5 percent of starting volume) than they are for First-Class Mail (1.3 percent of starting volume)?

9. Between 2010 and 2011 RPW Reports indicate that the volume of Standard Mail increased as follows (in millions):

2011	84,691.971
2010	82,514.808
Vol. Increase, 2010-2011	2,167.163

At the same time, your Table 2 indicates that over this same period, between 2010 and 2011, the Postal Service lost 1,407.5 million pieces attributable to the Great Recession.

2008-2011	27,937.0
2008-2010	25,989.5
Change, 2010-2011	-1,407.5

a.   Is it correct that you believe that in 2011, when actual Standard Mail volume increased by 2.167.2 million pieces, your model nevertheless estimates that losses in volume attributable to the Great Recession increased by 1,407.1 million pieces? If so, please explain why you believe this counterintuitive result to be correct.

10.   Your prior testimony in Docket No. R2010-4(R) discusses the possibility of interaction (or correlation) between the various factors shown in your Table 2.

a.   Have you developed a table or any statistics which estimate the extent of correlation or interaction between the different factors shown in Table 2? If so, please provide all correlation statistics which you developed for the various factors shown in your Table 2. If you did not develop any estimates of interaction or correlation between the various factors shown in your Table 2, pleas explain why not.

b.   If you do have estimates of correlation, and if significant correlation exists between any of your factors, or independent explanatory variables, please explain how you separate the joint effects of correlated factors on volume loss and assign the volume loss to one or another of the correlated factors.

Respectfully submitted,

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